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The case for gold

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The

PALL MALL MAGAZINE



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THE CASE FOR GOLD. WILLIAM WALDORF ASTOR 65

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THE
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THE CASE FOR GOLD.

IN considering the historical development and present position of the Silver Question—its momentous importance as the great monetary problem of the nineteenth century, its world-wide consequences, its curious phenomena, and its pedantic oddities of the amateur financiers who in the past have approached it from both sides—one cannot but wonder what the scientific opinion will be, one hundred years hence, upon the delusion of bimetalism.

Of late the perplexity arising from an effort to do a thing in itself impossible—namely, to establish absolutely a parity between gold and silver—has been constantly on the increase. The chief agitation has come from the United States of America, where in 1814, at the close of the second war with Great Britain, the ratio was arbitrarily fixed at one ounce of gold to fifteen of silver. But the proportion then existing in Europe being one to fifteen and one-half, the American money-brokers exchanged fifteen ounces of silver for one of gold, which they forthwith sold in Europe for fifteen and one-half ounces of the white metal—an ingenious operation they repeated indefinitely to their own profit, though with the effect of draining America of gold and flooding it with foreign silver. To check this tendency the ratio was summarily changed to one ounce of gold to fifteen and nine-tenths silver, the consequence whereof was to make it profitable to send silver to Europe and recall gold. The influx of Californian gold in 1850 suddenly disturbed the proportion between the metals to the great advantage of silver; while in 1870 a counterwave of silver from the western mines once more abruptly depreciated that metal, and raised the relative value of gold. In 1863, the American Civil War necessitating the issue of paper at a depreciation ranging from 50 to 150 per cent., both metals were swept from circulation, and the American monetary problem passed to the phase of a return to specie payments, which was not accomplished until thirteen years after the restoration of peace.

It was during these years, when the country was flooded with a depreciated currency, that a belief arose, chiefly among the western rural population, that cheap money means abundance—an amiable fallacy largely adopted by the advocates of bimetalism. As a matter of fact, cheap money is always debased, and consequently dishonest money. A cheap dollar is one of less

than standard value, be it the greenback dollar of war times, worth only twenty-five or fifty cents, or the Bland silver dollar of fifteen years ago, worth seventy-five cents. But, at the time, people noticed only their nominally high salaries and wages, the easy abundance of notes in circulation, the seemingly good price paid for crops and manufactures, without taking into account that the dollars they received were really worth but a fraction of their face value. It was forgotten that at the close of the American Revolution, when cheap money saw some of its palmiest days, a soldier's pay for a month would only buy a breakfast; while in the Southern Confederacy, where "cheap money" reached a *hiatus*, a planter's income for a year scarcely sufficed to pay for a suit of clothes. And so it came about that when the financial situation of the United States made it possible for a wise Secretary of the Treasury to withdraw two billion greenback dollars from circulation, the remainder at once gained in value, though, of course, prices fell in proportion. The Western States raised a cry against Eastern capitalists, and several cities which had borrowed heavy sums in New York, which they had intended to pay in depreciated paper, denounced the "Shylocks," to whom they feared they would now be obliged to pay gold or its equivalent. It was then generally claimed, and it is still occasionally asserted, that a fixed monetary standard is a mischievous device of rich men, in disregard of the obvious fact that the poor are the first and greatest sufferers from a debased and fluctuating currency. Had the American Silver Party then commanded the power, it would have made all United States Government securities thenceforth redeemable in Silver Certificates, which is equivalent to redeeming one promise with another less good. Failing in this, it secured the passage in Congress of the Sherman Bill, which should have been entitled "An Act to compel the United States Treasury to spend sixty million dollars annually in buying what it does not want." The effect of that Bill is to oblige the United States Government to purchase four-and-a-half million ounces of silver monthly, in spite of which the price of silver has fallen to forty-one pence per ounce, and is still further declining, partly because of its constant production from inexhaustible mines, and partly because there is an unconquerable aversion, the world over, to the use of silver in bulk.

This buying process goes steadily on. The United States Treasury is overloaded with silver it cannot put in circulation, and which can never be re-sold for the price at which the Government buys it. The beneficiaries of this operation are the Silver Kings, who must be an object of envy to manufacturers generally, who would likewise greatly profit were an Act put in force obliging the American Government to buy their products.

The bimetallic prospect has been, however, for some years clouded by the exportation from America of ominously large sums of gold, the net outgo during the year 1891 amounting to about seven million sterling. As this process, if continued, would ultimately have put the American Republic on a silver monometallic basis, resembling that of China, India, and several South American nondescripts, the common sense of the country took alarm, and raised so violent an agitation of the bimetallic sophism that, as a means to divert attention, the Silver Party imagined an International Conference, whose purpose should be to make such terms with foreign markets, to the

advantage of American Silver, as should not only stop the outflow of American gold, but enable the United States Treasury to unload silver bullion abroad. That Conference assembled at Brussels in November, 1892; and if there be truth in the American saying that nothing succeeds like success, then surely the Silver Kings' Conference will be remembered only by its failure. The American delegates held the affirmative in favour of bimetalism, and were met by emphatic replies. France answered that there is no prospect of the substitution of bimetalism for monometallism; Russia dismissed the proposal for an international agreement to regulate the parity of gold with silver by a curt *non possumus*; Italy declared that nothing could be done without the co-operation of Great Britain; the English delegates would make no appreciable concession; Germany, Austria, and Sweden adhered to the gold basis. Stripped of circumlocutions as laborious as the *obiter dicta* of a German Professor, the consensus of European opinion, as delivered in reply to the American proposals, meant this: That, despite the theories of financial *dilettanti*, it is absurd to suppose that a debased or fluctuating currency can lead to genuine prosperity; that the honest price of commodities will always be their value expressed in terms of gold; that it would not be honest to pay the principal or interest of a gold obligation in anything else than the equivalent of gold; that Europe does not want Nevada silver at a high and arbitrary valuation; that monetary problems are no more to be governed by Act of Congress than are the rising and setting of the sun; that a silver sham dollar of seventy or eighty cents cannot be the equivalent of a gold dollar of one hundred. But long before the Conference adjourned, or even before it met, it was well understood to be no part of its mission to champion such absurdities. Half the world knew that President Harrison's motive in proposing the Conference was to postpone serious consideration of the troublesome Silver Question until after the Election of November, 1892; that public opinion, as well as the American press generally, regarded the Conference merely as a political expedient, designed to go through certain perfunctory motions; and that it was sedulously kept from view that Wall Street formally opposed the silver delegates and their bimetallic programme.

Since the adjournment of the Brussels Conference without the financial crash which it was vehemently predicted would follow its rejection of bimetalism, a tentative effort has been made in the United States Senate to repeal the mischievous folly of the Sherman Bill. The attempt failed, because the new Democratic Administration, which is monometallic in policy, has resolved, with Machiavellian astuteness, that the existing financial embarrassment shall not be remedied until the American community has been so effectually singed, that it will be loath, hereafter, to listen to the blandishments of Nevada. In consequence the American Treasury continues, as required by the Sherman Bill, to add four-and-a-half million ounces of silver monthly to its heavy store; the disorganisation of trade is aggravated; the New York stock market droops; industry and commerce reflect in all directions the popular uncertainty and apprehension; and during the first six months of this year the net gold export from America exceeded *twelve million sterling*. This outflow of gold should remind the Nevada Silver Kings of the truism that inferior money will always drive out better money if given the

chance to do so. An example of this came near actual demonstration in England two years ago, when, had Mr. Goschen's project to introduce one-pound notes been adopted, its first effect would have been the general withdrawal of sovereigns from circulation.

In an article entitled "The Currency Crisis in the United States," published in the June number of the *Fortnightly Review*, may be read the remarkable declaration that "The entire American nation is anxious for a bimetallic currency." It would not be easy to make a statement more widely at variance with facts. Were bimetallicism the desire of a majority of Americans, it would be in force in the United States at the present day. But as evidence that such is not the case, a majority of the people's representatives in Congress have declared themselves opposed to bimetallicism; and it is these representatives of the American popular majority who will shortly be convened in special session for the express purpose of repealing the unstatesmanlike Sherman Bill, which event, it is hoped, will give bimetallicism its quietus for a long time to come.

I believe the maintenance and integrity of contracts to be the essence of all prosperous commercial relations; and as the gold standard admittedly fluctuates less than any other, there is, in this single circumstance, strong reason for adhering to it as the most nearly stationary measure of the obligation of contracting parties. Silver, on the contrary, fluctuates as coal and iron rise and fall; and its ratio to gold can no more be made permanent than can the quotations of the market price of silver ore. It is an inevitable condition of silver production that the value of the metal varies, and hence it is conspicuously unfit to be, itself, a measure of value. What would be thought of a gallon measure that, after holding eight pints yesterday, should expand to nine to-day, and might shrink to seven to-morrow? So long as a majority of the human race recognises that cheap goods and plenty are the conditions of profitable trade, and that scarcity and depreciated money mean hard times, so long will it be apparent that bimetallicists are merely seeking to constrain the world to the use of a coinage it rejects in place of a better which has been in use for ages. And credit, which is the motive force of the financial system of nations, as of individuals, will always be dependent upon the simplicity and integrity of a single standard of money value.

In considering the currency question as it exists in Oriental countries, where it is a momentous feature of the pending monetary problem, we are met by the difficulty of having to deal with semi-savage communities whose ignorance is part of their religion, and whose knowledge of finance has not yet passed the stage of hiding their savings. The Hindoo and the Chinaman hoard the precious metals precisely as, some centuries ago, they were hoarded generally throughout Europe, until the inventors of bills of exchange, who have been our masters and instructors in all monetary matters, demonstrated that something more profitable can be done with our talent than burying it in the ground. I believe that China and India must eventually be similarly educated, and will ultimately adopt a gold standard, because their natural tendency must be to do business on a cash basis, owing to the risk resulting from keeping transactions open for long periods. They will gradually awaken to an understanding of the fact that the fluctuation in value of their

silver currency, in dealing with other countries, curtails their credit, and, by diminishing trade, proportionately reduces profits. It will also be brought home to them, when they have progressed beyond their present elementary stage, that capitalists will never invest in the securities of any country whose interest is payable in silver, owing to the uncertainty of the return they are to receive. The future tendency will be that every country which balances its budget with a surplus will command a gold standard with a paper currency always redeemable for gold on demand. Moreover, as less bullion is actually used now, than in former days, relatively to the world's population and to the extension of trade, credit will come to be the basis of a universal monetary system. At present, gold actually passes in only a small number of transactions, the usual medium being a promise to pay the equivalent of gold. The marvel of the twentieth century is destined to be the increased efficiency of capital, owing to the improved and extended organisation of credit, whose development, supplemented by extradition laws, will be such that, apart from all ethical considerations, it will not pay to be dishonest.

The essential weakness of the bimetallic argument is that it rests upon hypothetical assumptions, whose effects must be equally conjectural. Fortunately for the advance of civilisation, it is not probable that in the next century, when the human race will progress in wise and valuable knowledge, that its financial interests will be allowed to decline, or its currency to degenerate. It is not likely that, in this practical age, the financial centres will suffer a thing so delicate and vital as their standard of value to be trifled with at haphazard; and, so long as this remains the case, it may confidently be affirmed that it will be impossible to accomplish any monetary scheme of world-wide bearing which encounters the joint condemnation of the City of London and of Wall Street of New York.

WILLIAM WALDORF ASTOR.

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